US Embassy Jakarta

ECONOMIC SECTION

INDONESIA: TRADE AND INVESTMENT HIGHLIGHTS JANUARY 2006

Summary:

- Indonesia’s 2005 exports increased 19.5 percent year-on-year (YoY) to USD 85.6 billion from USD 71.6 billion in 2004, exceeding expectations. Electrical tools, fats and palm oils, and machinery/mechanical equipments were leading export sectors.

- The Minister of Finance announced on January 26 that the Government of Indonesia (GOI) has completed the second phase of a comprehensive Tariff Harmonization Program covering more than 9,200 tariff lines. New tariff rates under the harmonization program came into effect February 1, 2006.

- A number of local banks agreed on January 24 to provide financial support to some Indonesian textile producers for working capital and machinery upgrades.

- New domestic car sales reached a record 534,000 units in 2005, a 10.5 percent increase from 2004.

- Motorcycle sales in 2005 demonstrated even more impressive growth, rising to 5.1 million units, a 31.2 percent increase YoY.

- The Ministry of Industry said on January 18 that it would make development of a domestic automotive industry a priority.

- The Indonesian Footwear Manufacturers Association announced on January 19 that Indonesian footwear exports increased 20 percent from USD 1.5 billion in 2004 to USD 1.8 billion in 2005.

Export Growth Continues

The Central Bureau of Statistics (BPS) announced on February 1 that Indonesia's exports reached USD 85.6 billion in 2005, a YoY increase of 19.5 percent. Non-oil and gas exports rose to USD 66.3 billion, a YoY increase of 18.65 percent. Imports in 2005 grew to USD 57.6 billion, a 23.7 percent increase YoY. Strong export growth caused Indonesia's trade surplus to increase 11.8 percent in 2006 to USD 28.0 billion.

Table 1: Indonesian Trade Performance 2005:

In USD billions	2004	2005	Percent Increase 2005/2004
Export	71.58	85.56	19.5
Oil and Gas	15.64	19.25	23.0
Non-Oil and Gas	55.94	66.31	18.6
Agricultural	2.49	3.14	25.7
Industrial	48.68	55.14	13.3
Mining and others	4.77	8.03	68.7
Import	46.52	57.55	23.7
Oil and Gas	11.73	17.39	48.2
Non-Oil and Gas	34.79	40.16	15.4
Balance of Trade	25.06	28.01	11.7
Imports by Broad Economic Categories:			
Consumption Goods	3.79	4.70	24.0
Raw Materials	36.20	44.58	23.1
Capital Goods	6.53	8.27	26.6

Source : Central Statistic Agency (BPS)

Industrial exports, which account for 64.4 percent of total exports, expanded 13.3 percent YoY in 2005 to USD 55.1 billion. Electrical tools, fats and palm oils, and machinery/mechanical equipments were Indonesia's top three non-oil and gas export earners for the period, accounting for USD 7.4, USD 4.8 and USD 4.6 billion respectively. Resource oriented exports such as crude oil, natural gas, and oil production, demonstrated the strongest growth, reflecting high global commodity prices and increased demand from China and other regional partners, comprising 30.5, 18.5 and 16.1 percent of oil and gas exports respectively. In December alone, BPS recorded global crude oil prices for its exports earning calculation at USD 54.6 per barrel, a 2.3 percent increase from USD 53.4 in November. Strong growth in capital goods imports (27 percent increase YoY) and a respectable increase in industrial goods exports are likely signs of an improving business climate in Indonesia’s manufacturing sector. Total imports surged with the rise in world oil prices and Indonesia’s status as a net oil importer for much of 2005. Japan edged out the United States as Indonesia’s largest non-oil and gas export destination in 2005, with Singapore taking third place.

Table 2: Indonesia's Top 10 Non-oil and Gas Exports 2005 (In USD billions)

Commodity	2004	2005	Percent of Total 2005
Electrical Tools	6.57	7.38	11.1
Fats and Palm Oils	4.42	4.77	7.2
Machinery/Mechanical Equip	3.85	4.55	6.9
Coal	2.92	4.51	6.8

Copper, Ash and Residues	1.94	3.58	5.4
Garment – not Knitted	2.81	3.06	4.6
Furniture, home lightings	1.70	1.90	2.9
Knitted products	1.48	1.82	2.7
Tin	0.62	0.89	1.4
Various Chemical Products	0.53	0.55	0.8
Total top 10 products	26.84	33.02	23.0
Other	29.10	33.29	14.4
Total non-oil and gas exp	55.93	66.31	18.6

Source : Central Statistic Agency (BPS)

Table 3: Indonesia: Main Non-Oil and Gas Export Destinations, 2005
(FOB value, in USD billions)

Country of Destination	2004	2005	Percent of Total (2005)
Japan	8.38	9.62	14.5
U.S.A	8.27	9.46	14.3
Singapore	5.39	7.07	10.7
China	3.44	3.89	5.9
Malaysia	2.87	3.39	5.1
South Korea	1.85	2.63	4.0
European Union	8.95	10.15	15.3
Taiwan	1.52	1.79	2.7
Australia	1.16	1.12	1.7
Others	14.10	17.20	26.0
TOTAL	55.94	66.31	100.0

Source : Central Statistic Agency (BPS)

GOI Finalizes Tariff Harmonization Program

Minister of Finance Sri Mulyani announced on January 26 that the GOI completed the second phase of its comprehensive Tariff Harmonization Program (THP). Mulyani said the THP, which came into effect February 1, 2006, aims to eliminate price distortions in the domestic market and to bring Indonesia into compliance with its international trade obligations. Ministerial Decree No.132/2005, dated December 23, 2005, stipulates that the GOI reviewed 9,209 tariff lines in the second phase of the THP, but made changes to just 800 lines. Of this sum, 635 tariff lines received lower tariffs while 165 lines received tariff increases. In the first phase of the THP announced in January 2005, the GOI reviewed 1,964 tariff lines, increasing tariffs on 96 tariff lines and decreasing them on 143 tariff lines.

Ministerial Decree No.132/2005 does not list specific tariff rates by Harmonized System (HS) Code Number. It only states that the THP covered 12 commodity groups: steel, aluminum, vehicles and aviation, electronics and IT, textiles, downstream chemicals, upstream chemicals, agro industry, forestry products, agriculture and plantation products, miscellaneous industrial products, and diamonds and handicrafts. It further notes that, depending on the product, tariffs are typically set at 15, 10 or 5 percent. Guidelines detailing the new tariff rates at the HS code level await Minister Mulyani's signature. Minister of Trade Mari Pangestu has in the past described the THP program as an effort to harmonize and rationalize tariffs, encourage import of raw materials, and increase processing and downstream production within Indonesia.

Local Banks Say They Will Support Textile Industries

Ministry of Industry Director General for Metal, Machinery, and Multifarious Industries Ansari Bukhari announced on January 24 that a number of local banks have agreed to provide financial support to some Indonesian textile producers. Bukhari listed Bank Mandiri, Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI), Bank Danamon and Bank Central Asia (BCA) as participants in the initiative. He said the banks have made an initial commitment to provide loans to companies operating in weaving and spinning industries with good financial track records.

According to Ansari, total lending to the textile sector in 2005 amounted to USD 358 million. A November 2004 Ministry of Industry assessment with support from the Indonesian Textile Association (API) shows that half of Indonesia's textile production plants are more than 15 years old, and estimates the industry as a whole requires USD 5 billion in investment to upgrade its equipment. Following Ansari's announcement, API said that its textile restructuring committee would develop a short list of companies eligible to receive lending support.

Indonesian garment exports reached USD 7.5 billion in the first-eleven months of 2005, topping the previous year's full year record of USD 7.3 billion. Analysts believe that 2005's strong performance is due to a range of factors, including U.S. and EU safeguard measures against some Chinese garments, the end of the Multi-Fiber Agreement's quota system, Indonesia's integrated textile and garment production capacity, and improved economic and political stability.

Car Sales Rise in 2005, but 2006 Uncertain

The Indonesian Car Manufacturers Association (Gaikindo) announced on January 13 that sales of new cars in Indonesia rose to a record 534,000 units in 2005, an increase of 10.5 percent from 483,295 units in 2004. The sales exceeded earlier forecasts of 530,000 units, in spite of dramatic fuel price increases on October 1, 2005. Toyota assembler Astra International remains the market sales leader with 258,892 new vehicles sold domestically in 2005, a 19 percent increase from 217,593 units in 2004. Analysts note that low interest rates during much of 2005 encouraged consumers to purchase new cars at record rates. Gaikindo, however, predicts higher fuel prices and interest rates could lower 2006 domestic car sales below 500,000 units.

The Indonesian Motorcycle Manufacturers Association (AISI) announced on January 20 that motorcycle sales in 2005 rose 31.2 percent to 5.1 million units from 3.89 million units in 2004. Industry analysts say the dramatic increase in sales is a result of improving consumer sentiment during the fast half of 2005 and a shift to more fuel-efficient forms of transportation following early October fuel price increases. AISI, however, predicts that higher interest rates, inflation, and reduced consumer spending will result in 2006 motorcycle sales of fewer than 3 million.

Table 4: Indonesia's Annual Motorcycle Sales (in million units)

Year	August 2005
2005	5.10
2004	3.89
2003	2.81
2002	2.29
2001	1.58
1999	0.86
1998	0.49
1997	0.43
1996	1.80

Source: AISI compiled with other sources.

Footwear Exports Increases

The Indonesian Footwear Manufacturers Association (Aprisindo) announced on January 19 that Indonesian footwear exports reached USD 1.8 billion in 2005, an increase of 20 percent from USD 1.5 billion in 2004. The United States and the European Union remain the largest markets for Indonesian shoes. Aprisindo said that Indonesia has an opportunity to supply at least 20 percent of the EU market in 2006, following EU anti-dumping measures against China and Vietnam. The EU is also considering reducing import duties on footwear from Indonesia from 17 to 14 percent under its Generalized System of Preferences (GSP) program.

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